

**QUARTERLY REPORT ON ACTIVITIES
FOR PERIOD ENDED 30 SEPTEMBER 2005**

HIGHLIGHTS FOR THE QUARTER

BLAIR NICKEL MINE

- Blair Nickel Mine continued to perform in line with forecasts with nickel production for the quarter of 362 contained Ni tonnes, following on from June's record quarter.
- A total of 10,243 dry tonnes of ore was treated at an average grade of 3.54% Ni for 362 tonnes of dry contained nickel. This is the highest quarterly grade produced from the mine since operations recommenced in March 2004.
- The "In-Ore Decline" continued during the quarter to access high grade ore below the previous lowest level. At quarter end the decline had accessed ore on the CO1 shoot and was approaching the high grade EO3 shoot.
- Operating cash costs were A\$6.90/lb Ni payable and cash cost including capital development were A\$8.39/lb Ni payable. The average nickel price received was A\$8.33/lb Ni payable for the quarter (A\$7.17/lb Ni payable after 90 day averaging adjustments received from Nickel West to June production).
- Metallurgical test work continued during the quarter on the nickel oxide resource at Anomaly 11 following confirmation RC drilling.
- Additional nickel ore resources discovered in the Blair mine using off drive electromagnetic surveys.
- Diamond drilling of Area 57 vertical extensions confirms nickel mineralisation with best intersection 0.45m at 5.28% Ni.

DUPLEX HILL SOUTH PROJECT

- Strike extension drilling at Duplex Hill South along 1km gold anomaly confirms significant high grade gold mineralisation on the East Reef with best intersections of 10m at 7.08g/t, 14m at 2.96g/t, 9m at 2.98g/t and 6m at 3.41g/t.

CORPORATE

- Cash at bank at 30 September was \$2.4M

BLAIR MINE

Production and Development

Production statistics for the Blair Mine are given below:

Table 1: Quarterly Production Summary

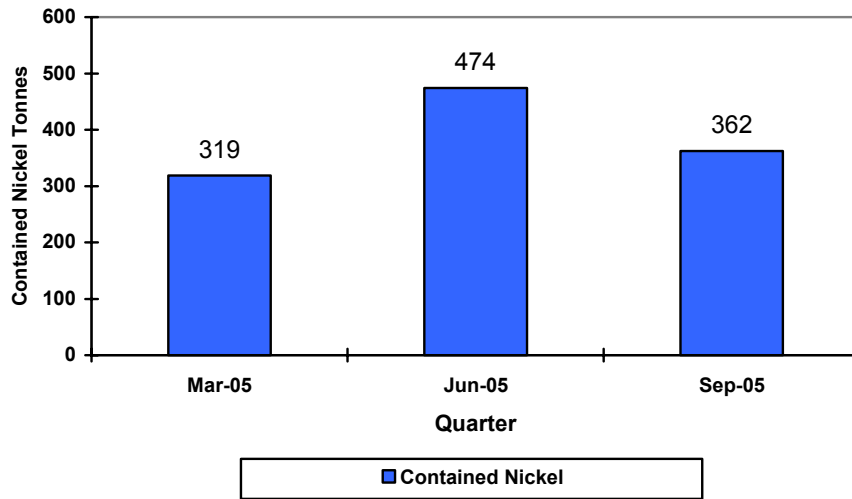
		Dec-04	Mar-05	Jun-05	Sept-05
Ore Mined	Tonnes	10,920	9,985	13,945	10,213
Contained Ni Mined	Tonnes	317	309	467	361
Ore Treated	Tonnes	9,860	10,477	14,278	10,243
Grade	% Ni	2.81	3.01	3.31%	3.54%
	% Cu	0.19	0.19	0.19%	0.19%
Contained Ni	Tonnes	277	319	474	362
Recovered Ni	Tonnes	242	281	421	325
Nickel (Spot) Price (received)	A\$/lb	9.16	9.55	10.07	8.33
Final Price recd 90 day adjust**					7.17
Operating cash cost	A\$/lb	8.05*	11.04	6.92	6.90
Total cost with capital devt	A\$/lb	11.44*	12.5	6.92	8.39

* Prior period unit costs have been recalculated to reflect the cost per tonne on Ni payable as per the Nickel West toll treatment agreement where a deduction is made from revenue for treatment. This therefore adds toll treating and cartage to the cash costs including state royalties and administration.

** The final price received from Nickel West on production to June 2005 adjusted for final 90 day price .

Contained nickel metal production for the quarter was 362 tonnes with first ore being mined via the “In-Ore Decline” on the CO1 shoot. Nickel production is forecast to increase as higher grade ore is accessed on new levels at the bottom of the mine and mining of remnant areas continues within the mine.

Blair Mine - Quarterly Production



The direct mining cash costs for the quarter were A\$6.90/lb of nickel payable (previous quarter A\$6.92/lb nickel). With the capital costs associated with the “In-Ore Decline” cash costs increased to A\$8.39/lb of nickel payable. The higher costs will be offset by new nickel production in accessing the Blair Deeps ore reserves below the 480m RL.

Production for the quarter again focussed on three main areas: stoping the 01 & 03 Surfaces below the 516 level, secondly continuing to mine the remaining areas of the Area 57 orebody and finally continuing to mine the remnant areas on the 01 Surface above the 516 level.

Monthly ore production from the E03/L03 ore shoots averaged 60% of the contained nickel during the quarter with good tonnages at minimal dilution encountered from these areas. The C01 shoot within the current working levels outperformed expectations compared to the levels previously mined. The C01 shoot combined with the on-going performance of the E03/L03 shoot hold the mine in good stead as the mine progresses below the 480m level.

During the quarter re-accessing via by-passes and stoping was continued in the remnant areas of the mine. Additional resources have been exposed and will be extracted in the coming months. Ongoing geological assessment of high grade remnant ore is highly likely to increase the mining reserves in these areas.

The “In-Ore Decline” continued after commencing in the previous quarter. The decline commenced initially using hand held airleg mining methods, but was changed during the quarter to a mechanised, faster method using a single boom jumbo. During the month of September, the decline developed through the C01 Shoot producing approximately 772 tonnes at 2.65% Ni. Total decline and lateral development for the quarter was 193 metres.

Safety

There was 1 Lost Time Injury at the Blair Nickel Mine during the quarter, when a small rock fell from the backs and cut an airleg miner on the forearm. There were 5 minor injuries during the quarter which required medical treatment, where no time was lost.

MINE EXPLORATION

Blair Mine Off-Drive EM Surveys

Off-drive electromagnetic surveys are a valuable tool for locating conductive bodies such as nickel ore bodies and during the month of September a total of 565 line metres of survey was conducted in the Blair Mine as an alternative to diamond drilling.

- The 480 level was surveyed so as to explore along the 03 surface to the west of the E03 ore body (E03C shoot was highlighted but no conductors to the west were identified).
- The new “In - Ore Decline” was surveyed so as to search along strike from the C01C shoot for the B01C shoot. The surveys gave an ambiguous result for B shoot, **but a 70 metre long conductive body running parallel to the 01 contact was located above the decline** and this has the potential to represent a remobilised ore position.
- Both the 654 and 684 levels were surveyed, with the B shoot between the 654 and 684 levels being identified as a strong conductor, and as a result a rise and sublevel will be developed into this ore in the next quarter.

Area 57 Off-Drive EM Surveys

Area 57 is believed to be a fault re-mobilised ore body, and a major geophysics targeting campaign was commenced in September to look for the primary source of the massive nickel.

During the month of September, a total of 423 line metres of off-drive EM survey was completed along the 1128 and 1048 access levels. At the end of the quarter, the data was still being processed.

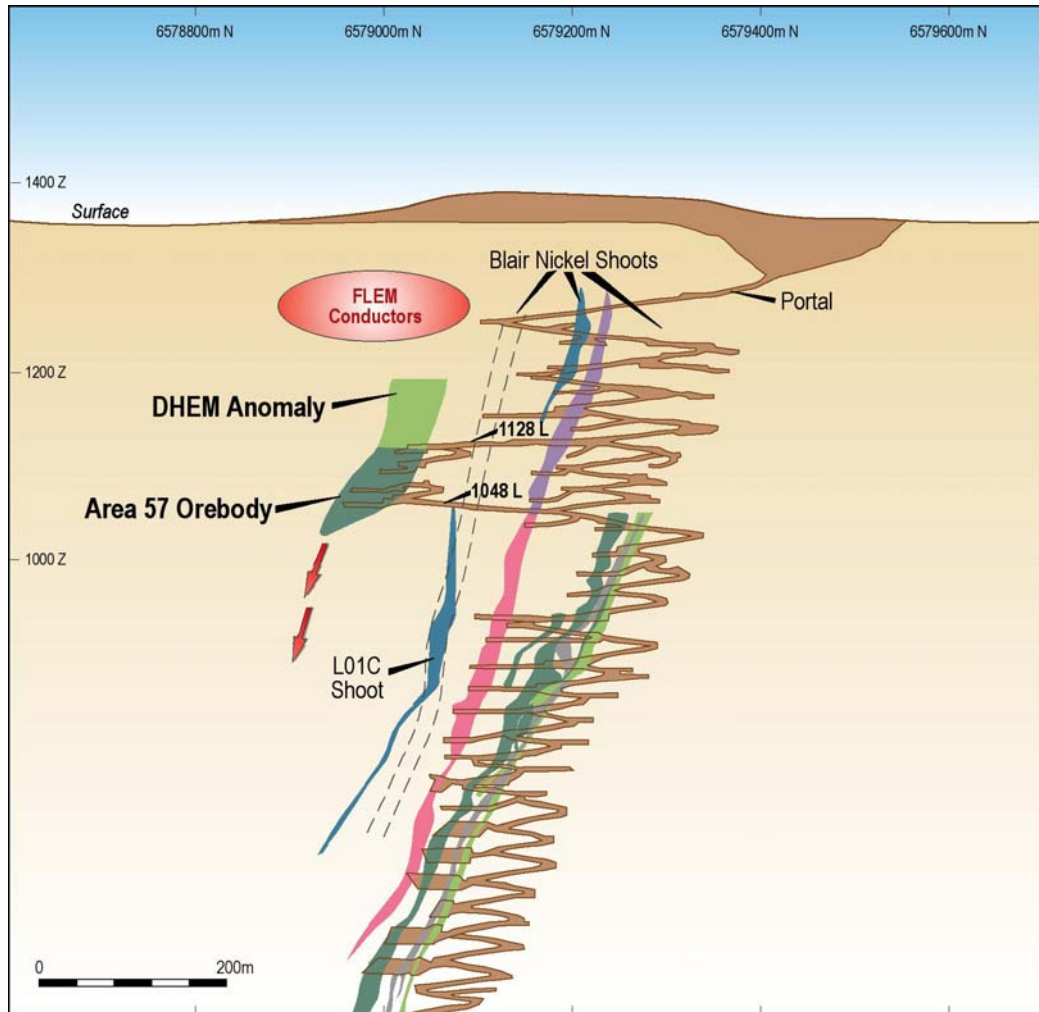


Figure 1: Long section of Blair Mine showing Area 57.

Diamond drilling at Area 57

Three diamond holes for a total of 655.9 metres were drilled from the 1128 access stockpile, so as to intersect a conductive plate above the highest workings of the Area 57 ore body (see Figure 2 below)

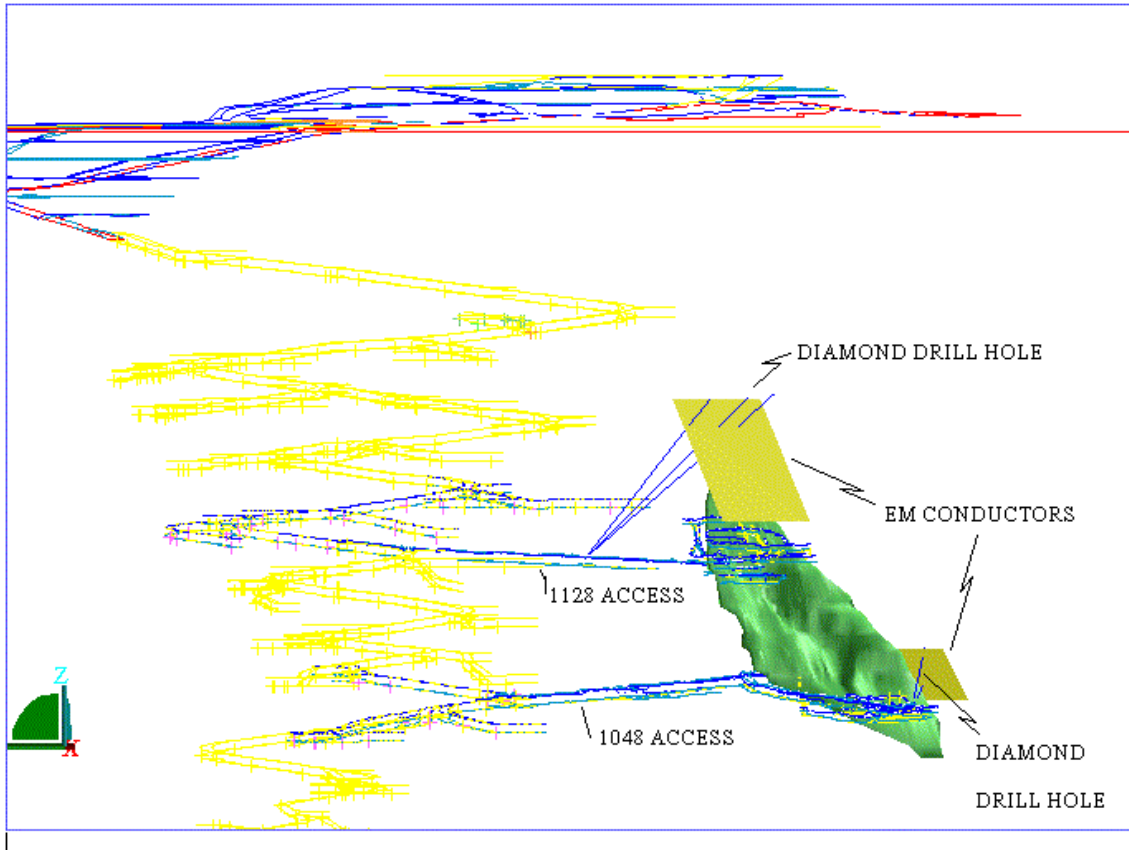


Figure 2: Drilling above Area 57 – September 2005

All holes intersected remobilised massive nickel ore with the middle hole (AMUG158) intersected 0.45 metres of ore which graded 5.28 % nickel. Although a narrow intersection, the results confirms the extension of the Area 57 nickel mineralisation. The results are shown in Table 1 below:

Hole	North	East	RL	Azi	Dip	From m	To m	Intersection m	Grade % Ni
AMUG158	6579141	377118	1128	242	23	10.25	10.49	0.24m	4.1 %
						184.5	184.95	0.45m	5.3 %
AMUG159	6479141	377118	1128	236	24	10.2m	10.4m	0.2m	4.8 %
						184.1m	184.3m	0.2m	0.7g/t
AMUG162	6579141	377118	1128	248	20	10.3m	10.4m	0.1m	4.9g/t

Table 1: Diamond drill intersections above Area 57 – September 2005

REGIONAL EXPLORATION

Blair Project – Nickel :

Anomaly 11 oxide

Preliminary metallurgical tests released in the June Quarter report at the Anomaly 11 oxide prospect have indicated that approximately 50% of the total nickel may be water soluble, and subsequent preliminary costings have indicated that this resource could be economic by using a heap leach or agitated leach process.

Four RC holes for a total of 241 metres were drilled into the shallow ‘oxide resource’ at Anomaly 11 during the quarter so as to provide new samples for metallurgical test work.

Each metre down the hole was assayed for a range of key elements after which the better nickel grade intervals were isolated, and the samples were then composited by weathering zone (saprolite or supergene) and sent to Simulus metallurgical consultants for laboratory leach trials.

The laboratory leach trials should provide an early indication as to what percentage of total nickel might be amenable to recovery by a mine scale heap leach or agitated leach process.

Nickel assay results for the 5 metre composites are shown in Table 2 and a schematic diagram of the shallow ‘oxide’ resource is presented in Figure 3 below:

Hole Id	From	To	Composite metres	Ni %	weathered zone
AMRC079	3	8	5	0.49	saprolite
	8	13	5	0.43	saprolite
	13	18	5	0.66	saprolite
	18	23	5	0.83	saprolite
	23	28	5	0.55	saprolite
	28	33	5	0.41	saprolite
	46	51	5	0.29	supergene
	51	56	5	0.33	supergene
AMRC080	14	19	5	0.33	saprolite
	19	24	5	0.42	saprolite
	24	29	5	0.49	saprolite
	29	34	5	0.42	saprolite
	38	43	5	0.31	supergene
	43	48	5	0.33	supergene
AMRC081	34	39	5	0.39	saprolite
	40	45	5	0.53	supergene
	45	50	5	0.73	supergene
AMRC082	5	10	5	0.48	saprolite
	10	15	5	0.52	supergene
	15	20	5	0.52	supergene
	21	26	5	0.44	saprolite

Table 2: Anomaly 11 – assay results from 4 metallurgical RC holes.

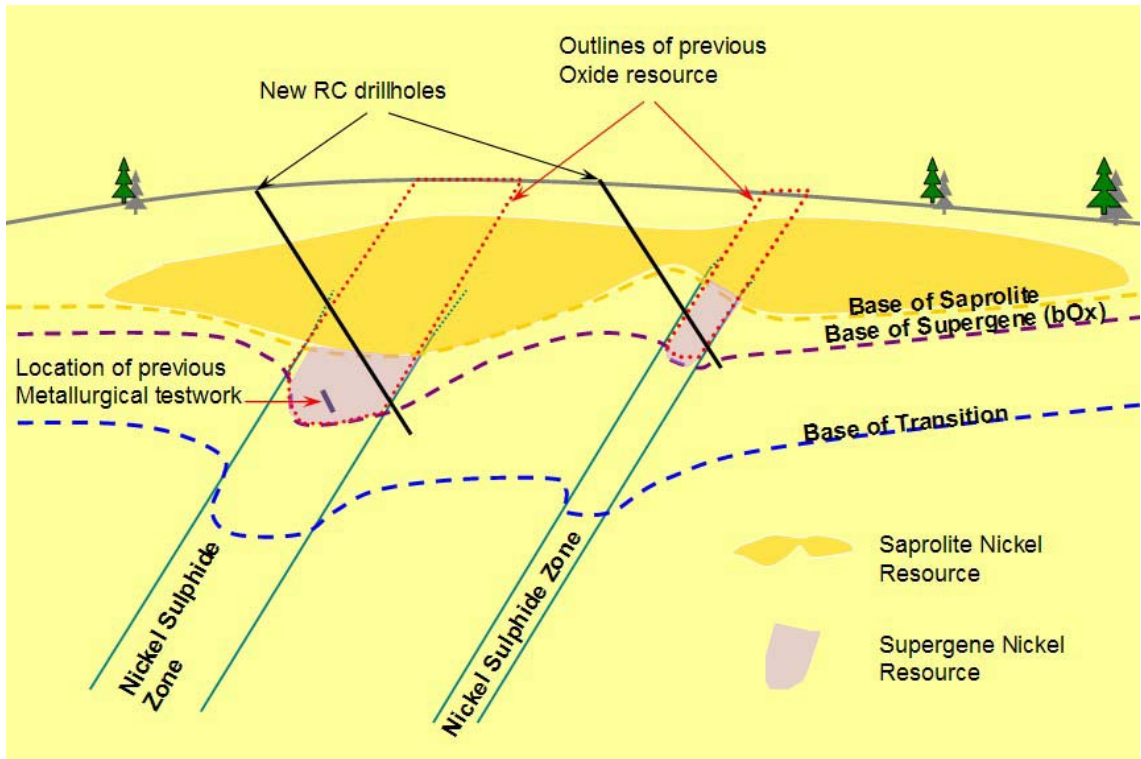


Figure 3: Schematic long section - Anomaly 11 nickel oxide project.

Blair Project – Gold:

Recent drilling programmes have provided very encouraging results at Duplex Hill South, about 7 km from the Blair Nickel mine.

Duplex Hill South

The East Reef was significantly improved and extended with the best intersections recorded to date being 10 metres at 7.08 g/t gold confirming a previous intersection of 16 metres at 3.49 g/t gold.

The gold-in-carbonate anomaly is 1 kilometre long and there is considerable potential to discover a number of additional reefs at Duplex Hill South. (see Fig 4)

On the East Reef RC, drilling on 4 traverses (11 RC holes for 770 metres) defined a strongly mineralised NE striking reef system, with a minimum strike length of 100 metres, and open both along strike and at depth.

The West Reef was tested on 2 traverses, (4 RC holes for 280 metres) with the best intersection being 1 metre at 3.6 g/t gold.

Below in Table 3 and 4 are significant gold intersections from the RC drilling programme for the quarter:

(a) East Reef – September 2005 RC drilling

Hole	North	East	RL	Azi	Dip	From	To	Intersection	Grade
Sept 05	drilling								
AMRC76	6569118	384218	383	270	-60	9m	18m	9m	2.98g/t
AMRC77	6569118	384233	383	270	-60	11m	14m	3m	2.48g/t
						35m	38m	3m	4.83g/t
AMRC78	6569118	384248	383	270	-60	62m	66m	4m	2.65g/t
AMRC75	6569142	384212	383	270	-60	11m	15m	4m	1.95g/t
AMRC74	6569142	384232	383	270	-60	10m	16m	6m	3.41g/t
AMRC64	6569142	384246	383	270	-60	20m	30m	10m	7.08g/t
AMRC65	6569142	384262	383	270	-60	49m	63m	14m	2.96g/t
AMRC73	6569159	384237	383	270	-60	13m	15m	2m	1.39 g/t
						37m	38m	1m	0.61 g/t
AMRC72	6569180	384266	383	270	-60	16m	18m	2m	7.29g/t
AMRC66	6569180	384287	383	270	-60	46m	55m	9m	1.79g/t
AMRC67	6569180	384302	383	270	-60	69m	72m	3m	2.56g/t
						50m	54m	4m	1.25g/t
previous	RC drilling								
DHSC09	6569160	384256	383	270	-60	13m	17m	4m	4.22 g/t
						31m	35m	2m	13.4 g/t
						52m	54m	2m	1.88 g/t
DHSC07	6569160	384281	383	270	-60	54m	70m	16m	3.49 g/t
DHSC10	6569160	384315	383	270	-60	53m	55m	2m	2.40 g/t

Table3 : Duplex Hill South- RC intersections on the East Reef.

(b) West Reef – September 2005 RC drilling

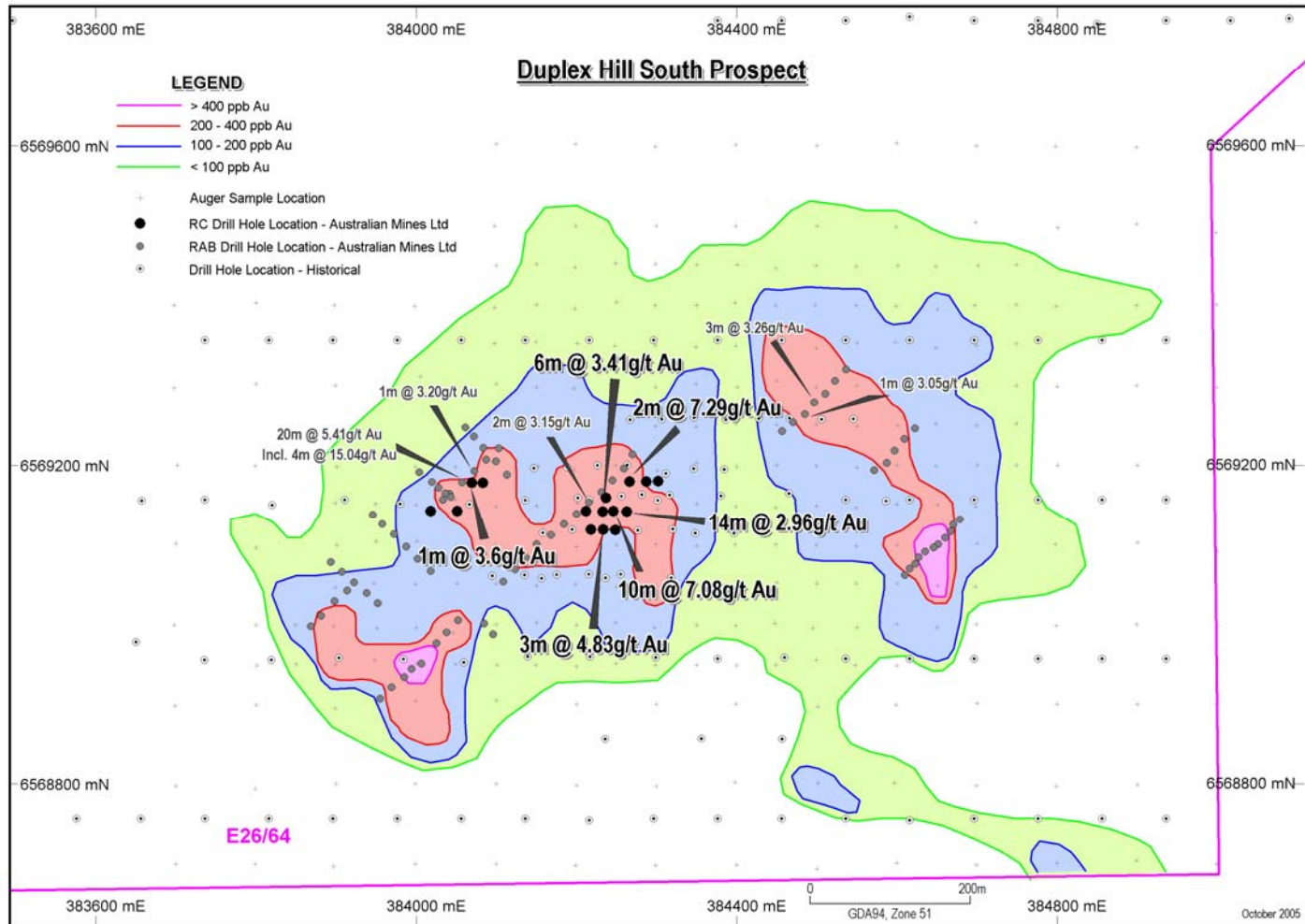
Hole	North	East	RL	Azi	Dip	From	To	Intersection	Grade
AMRC61	6569142	384051	383	270	-60	60m	64m	4m	1.37 g/t
AMRC62	6569178	384069	383	270	-60	32m	33m	1m	3.6 g/t
						54m	55m	1m	0.93 g/t
previous	RAB drilling								
AMBR304	6569179	384057	383	225	-60	55m	60m	15m	6.65 g/t

Table4 : Duplex Hill South - RC intersections on the West Reef.

The reef system is hosted in a coarse grained dolerite which has been weathered down to approximately 50 metres vertical depth. The tonnage potential of the East Reef is enhanced by a supergene blanket of mineralisation at approximately 40 metres vertical depth as well as a perched horizon of ore grades at between 10 and 15 metres vertical depth.

The company is currently planning the next phase of drilling to delineate the gold resource, with a programme anticipated to commence in the current quarter.

Figure 4 : Duplex Hill South – 1 kilometre long gold in carbonate anomaly.



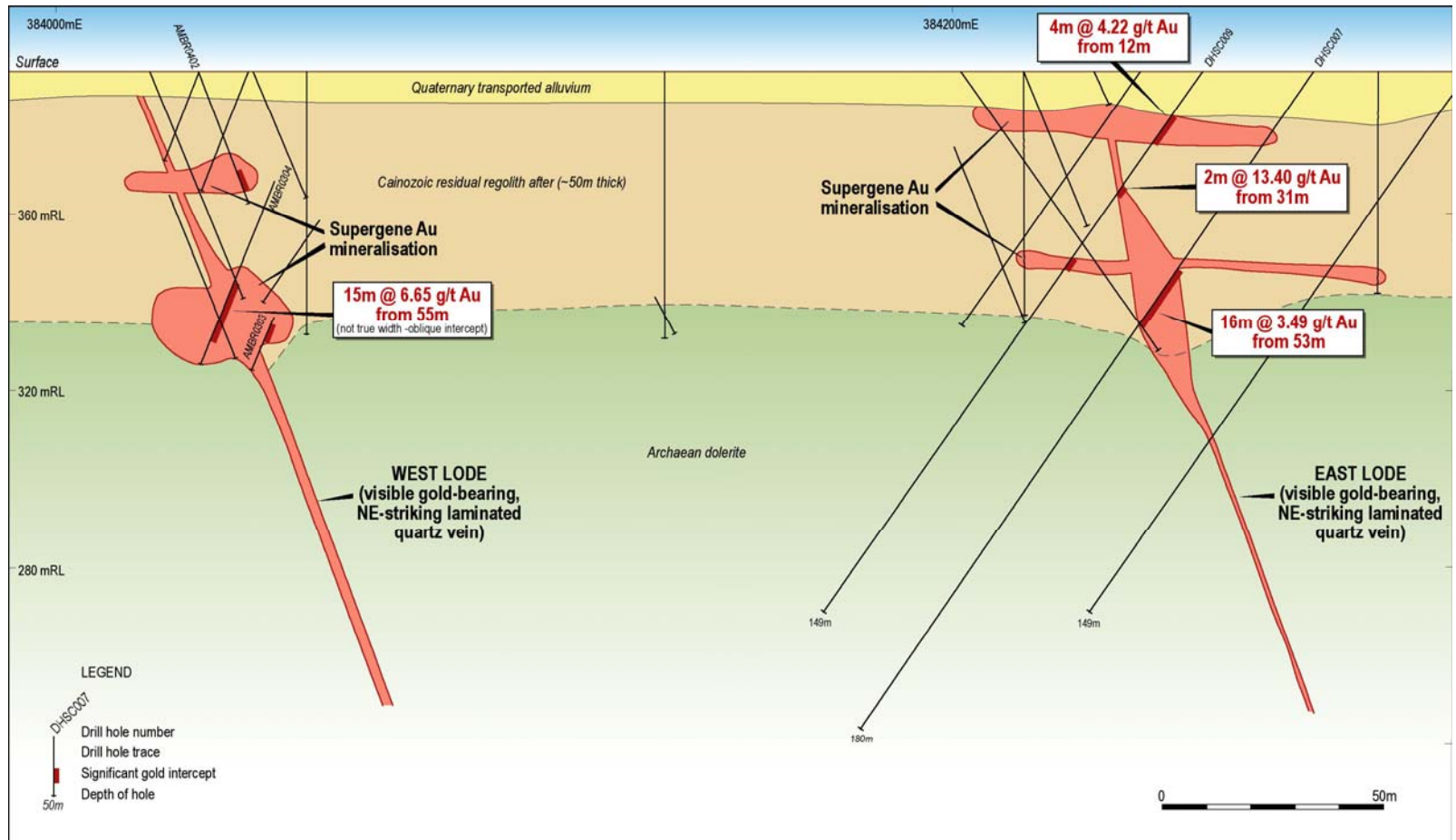


Figure 5 : Duplex Hill South , cross section at 6569160N showing the West and East Reefs.

CORPORATE

The Company had cash at bank of \$2.4M at September 30 2005.

The total cash costs (including capital development) of A\$8.39/lb for the quarter were higher than the June Quarter (A\$6.92/lb) as the Company progressed the decline at Blair Deeps.

The Company has received an average price of A\$18,361 per tonne of Ni payable or A\$8.33/lb. (previous quarter was A\$10.07/lb). After 90 day averaging received from Nickel West against June quarter production the realised price was A\$7.17/lb Ni payable.

Operating cash costs (excluding capital) were A\$6.90/lb (previous quarter A\$6.93/lb).

The company has been successful in completing a fully underwritten 2 for 1 entitlements issue at 1 cent that raised \$2.8M in July. The previous mining contractor was paid \$820,000 from this fund raising as part of the final settlement. The remainder of the funds has been allocated by the Company to fast track exploration on advanced nickel and gold targets and for working capital.

Currently the hedging position of the Company is 41 tonnes of payable Ni covering production for averaging months November and December at a delivery price of US\$14,143/tonne Ni. The remaining monthly nickel production is unhedged and being delivered against the prevailing nickel spot price which is approximately US\$12,000/ tonne Ni.

Subsequent to the quarter's end, Mr Brett Young, Chief Operating Officer, has been appointed as an executive director of the Company, following the departure of Mr Keith Liddell.

SUMMARY AND OUTLOOK

The entitlement issue funded the Company's exploration program in the September quarter and resulted in the promising gold results at Duplex Hill South. The Company will be conducting further drilling at Duplex Hill South in the forthcoming quarter to follow on from the good results achieved to date.

Regional nickel exploration targets include Anomaly 11 and Blair South are planned for further exploration.

The Directors have progressed the oxide nickel potential of the region around Anomaly 11 and Blair South. Metallurgical work is in progress to test the viability of an open pit operation using heap leach technology.

Several acquisition opportunities are currently under review by the company which will be continued in the December quarter.

Yours faithfully

Brett Young
Executive Director
Australian Mines Limited

Appendix 1: Location Plan of Blair Projects

